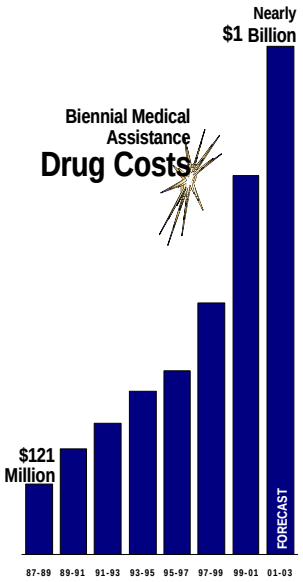
Washington State
Department of Social
& Health Services

Dennis Braddock, Secretary

Therapeutic Interchange: Managing Drug Costs

April 26, 2001

Today's #1 Medical Assistance Cost Driver



For several reasons, prescription drugs are a key target for attempts to control rising medical costs:

- *Drugs are seizing more of the available Medical Assistance dollars because new drugs have proven effective, replacing older and cheaper treatments.*
- *Secondly, drugs are often the treatment of choice for the aged and disabled, the most expensive population in Medical Assistance.*
- *Thirdly, new drugs are being priced at unprecedented levels and marketed in ways that exploit consumer interest and curiosity.*

Because Medicaid guidelines currently prohibit other cost-saving approaches (such as exclusive formularies), Therapeutic Interchange represents one of the few methods MAA can use to manage these expenditures.

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PRESCRIPTION DRUG COSTS have been increasing at more than 10 percent a year since the mid-1990s. In 1999, the Legislature directed the DSHS Medical Assistance Administration to review Medicaid drug expenditures and look for ways to better manage these costs. One of the key recommendations of that review was a system of "Therapeutic Interchange" that would allow MAA, health care providers, pharmacists, and patients to work together to find less costly alternatives to expensive medication without harming patients or interfering with doctors' clear responsibility to direct treatment.

If authorized, Therapeutic Interchange of selected drug classes will be phased in over the biennium, resulting in several million dollars in savings annually for the Medical Assistance Administration.

Implementing Therapeutic Interchange

Therapeutic Interchange provides the means by which a drug plan may exchange one drug for another, usually less expensive, drug and is an accepted technique among private carriers and hospitals. Typically, the interchange program is based on classes of similar drugs, for example:

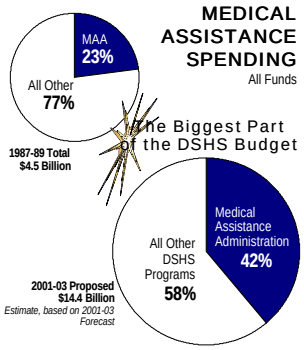
- **Histamine H2 Receptor Antagonists –** Prescribed to reduce excess stomach acid.
- **Proton Pump Inhibitors –** Also prescribed to reduce excess stomach acid.
- **Lipotropics (Cholesterol Lowering Agents) –** Used along with diet and exercise to control cholesterol levels in persons predisposed to coronary disease.
- **Non-Sedating Antihistamines –** Used to reduce allergy symptoms such as runny nose.

Patients, Pharmacists, Providers All Benefit

Key components of Therapeutic Interchange programs include:

- **DOCTOR IN CHARGE:** A central requirement of Therapeutic Interchange is that any doctor who prescribes an original drug must approve the alternative drug. The interchange occurs only if providers are unconcerned about alternatives.
- **COST SAVINGS:** Therapeutic Interchange may allow substitution of generics for brand-name drugs, resulting in savings due to the price differential.
- **PATIENT CONVENIENCE:** Therapeutic Interchange is convenient for patients because the process does not block or delay prescriptions at the pharmacy counter. After initial dispensing, prescriptions are flagged so any reimbursement issues can be resolved before refill.
- **ELIMINATES HASSLES:** Once the requirements of Therapeutic Interchange have been met, a physician's decision carries forward to future refills, eliminating any need to contact the physician again about the prescription.
- **FULLY INFORMED PATIENTS:** When Therapeutic Interchange results in an exchange, the patient is fully informed of the change and reasons why the physician has switched the prescription to the less costly alternative.

The Medical Assistance Budget as a Part of DSHS



Medical Assistance costs have grown significantly in the past decade due to caseload growth, program expansions, and rising health care costs.

While the MAA budget represented **23 percent** of total DSHS expenditures a little more than a decade ago, it is now expected to consume **42 percent** of the agency's budget in 2001-03.

Why the Increase?

Cost drivers are easy to isolate, difficult to control. These are the challenges we face today:

- *An aging population that is rapidly increasing the average number of provider visits/treatments.*
- *Technology and treatments that are newly available, but at considerable expense.*
- *Heightened consumer expectations, which are placing more demands on the system.*
- *Drug costs that are increasing exponentially.*

Persons with disabilities or special needs may call **360.902.7604** and request a copy.

This paper also is available electronically at www.wa.gov/dshs/budget.

Principles of Therapeutic Interchange

The concept of Therapeutic Interchange is far from new. Managed care plan formularies and hospital formularies have been in use in Washington State for many years and physicians and pharmacists are very familiar with the concept. Most managed care plans in Washington State use preferred drug programs to control drug costs. Currently, 70 percent of the managed care plans that contract with Medicaid for Healthy Options clients use Therapeutic Interchange as an effective formulary management tool.

Whenever a physician admits a patient to a hospital, the prescribed drug therapy for that patient is subject to the institution's Therapeutic Interchange policy. When physicians write prescriptions for outpatients with managed care prescription drug coverage, the prescriptions are subject to the insurance plans' preferred drug policies.

The principles of Therapeutic Interchange are grounded in the best interests of the patient:

1. Quality of care is the first priority consideration and must be the center of any well-managed and fully analyzed drug interchange program in health care.
2. Therapeutic Interchange is a collaborative approach, undertaken prior to prescribing, with interdisciplinary teams (medical, nursing, pharmacy) making decisions with respect to efficacy, safety, and quality of life, as well as cost.
3. Therapeutic Interchange reviews must take these primary factors into account:
   - Effectiveness for the disease under consideration.
   - Side effects of various medications.
   - Impact on patient's quality of life, including the ability to maintain a normal lifestyle.
   - Cost of the medication within the context of the overall cost of the treatment, including non-pharmacy costs.
4. Therapeutic Interchange must require physician approval, which protects the patient. Prescribers retain the right to require a specific medication for a specific patient and always have the prerogative or option to override an exchange of medications if medically necessary.

Therapeutic Interchange: *"The act of dispensing a therapeutic alternative for the drug product prescribed, upon collaboration with the prescriber, unless the prescriber has previously established and approved written therapeutic substitution guidelines or protocols for the pharmacist to follow."*

-- Legislative Report in response to Engrossed House Bill 2487, December 2000

Find Out More

More about how drug costs are affecting the overall Medical Assistance Administration budget is available on the DSHS web. A special two-part report explains various medical cost drivers and the effect of drug costs on the overall Medical Assistance budget:

Medical Assistance Budget Drivers
http://www.wa.gov/dshs/budget/MAADrivers.pdf

Medical Assistance Budget and Drug Cost Detail
http://www.wa.gov/dshs/budget/MAADetail.html